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SUBJECT: SCENE SETTER FOR THE VISIT OF THE VICE PRESIDENT
TO ASTANA, MAY 5-6, 2006

Classified By: Ambassador John Ordway, Reason: 1.4 (B) AND (D)

¶1. (C) Summary: The Vice President's visit comes at a time of strengthened U.S.-Kazakhstani strategic ties, particularly noticeable in light of the deterioration in our relationship with Uzbekistan. President Nursultan Nazarbayev was reelected in December to what he and the constitution say will be his final seven-year term in office. Immediately following his reelection, Nazarbayev focused on burnishing his legacy as the father of Kazakhstani independence and ensuring an orderly succession. Riding high on a 91.6% victory and record-breaking oil prices, Nazarbayev had the opportunity to move forward boldly with the political reforms crucial to Kazakhstan's future development while safeguarding what he regards as hard-won social and political stability. The February murder of a prominent opposition politician, Altynbek Sarsenbailuly, has changed the political calculation. It has unleashed an unusually public fight within the President's inner-circle as powerful figures sought both to avoid blame and achieve political advantage in the face of rampant suspicion that someone in the political elite had ordered the killing that Nazarbayev sees as a strike against his authority. Pending the outcome of the investigation, which the FBI is assisting, the murder will dominate the political landscape and render any engagement between the authorities and the opposition even more problematical than usual. The Vice President's visit provides an excellent opportunity to focus Nazarbayev on the big picture of Kazakhstan's continued development and potential for regional leadership, and to stiffen his resolve on the need for continued political reform. End summary.

The Geopolitical Context

¶2. (SBU) In geographic area, Kazakhstan is the ninth largest country in the world, with a population of 15.2 million. It is located in the heart of Central Asia and bordered by Russia, China, Uzbekistan, Kyrgyzstan and the Caspian Sea. Kazakhstan's size and location make it strategically important not only to regional stability but also to U.S. strategic interests. Kazakhstan's bold move to eliminate the nuclear weapons it inherited from the USSR set the stage for extensive and continuing collaboration with the U.S. in combating proliferation. In February 2006, Kazakhstan, along with the other nations of Central Asia, moved from the Bureau for Europe and Eurasia, to the new Bureau for South and Central Asia. While we will continue our active engagement with European economic, political and military organizations such as the OSCE, EU, and NATO, this move will allow us to promote stronger commercial and political relations between Kazakhstan and its South Asian neighbors. The latter include Afghanistan, with which this country already shares deep historical and cultural ties and one which could greatly benefit from Kazakhstani investment. Other areas for

increased regional cooperation include the war on terrorism, anti drug trafficking, and preventing the transfer of weapons of mass destruction.

13. (C) During her October 2005 visit, Secretary Rice announced a new "Central Asia Infrastructure Initiative," with the objective of encouraging increased infrastructure (energy, transportation, and communication) linkages between Central and South Asian countries. President Nazarbayev, in turn, has spoken favorably of Kazakhstan assuming a larger regional role, and during a recent conference on Afghanistan reconstruction, Foreign Minister Tokayev pledged Kazakhstan's assistance. In terms of energy initiatives, Kazakhstan is well-placed to trade electricity with its Central Asian neighbors.

An Ally in the War on Terrorism

14. (SBU) In 2002, Kazakhstan provided crucial support to U.S. coalition efforts in Afghanistan. It pledged no-cost overflights (some 4500 to date) and emergency landing rights for U.S. aircraft participating in Operation Enduring Freedom. The latter support has become increasingly important following the unilateral closing by Uzbekistan of the U.S. base in Karsi-Khanabad, and the deterioration in the bilateral relationship with Tashkent. Since August 2003, the Kazakhstan has also directly supported the U.S.- led global anti-terrorist coalition through deployment of a coalition of military engineers with coalition forces in Iraq. While the contingent is modest in size (27 troops and two liaison officers who rotate every six months), it had by April 2006 safely disposed of over 3.5 million pieces of ordnance.

15. (C) In 2004, Kazakhstani authorities realized they had an indigenous terrorist problem following the July 30 terrorist bombings in Tashkent, which included an attack on the U.S. Embassy. Those subsequently arrested and tried here included ethnic Kazakhstanis who had trained for the operation in the southern part of this country. This problem was underscored in late 2005 when Uighur terrorists linked to al-Qa'ida murdered Kazakhstan's deputy chief of mission in Islamabad. As a result of these events, cooperation between U.S. and Kazakhstani intelligence agencies on domestic and regional terrorist threats improved dramatically.

Democracy: Whither Kazakhstan in 2006?

16. (C) Since becoming an independent state in 1991, the government of Kazakhstan and President Nazarbayev, the country's first and only president to date, have outlined a strong vision of democratic development, respect for human rights, freedom of speech and the press and political pluralism. However, in significant areas such as media freedom and the ability of all political forces to play active and effective roles, governmental actions have often been in stark contrast with stated aspirations. The 2005 presidential and 2004 parliamentary elections, while in some significant ways an improvement over those conducted in 1999, were flawed and fell short of international (OSCE) standards. The government remains sensitive to challenges to its authority, even legitimate activity by opposition groups and parties, most prominently during election periods.

17. (C) Despite skepticism among international observers and the opposition about the his receiving an official 91.6% of votes cast, President Nazarbayev clearly scored a landslide in the December 2005 presidential elections, and was confidently looking toward having a mandate for future actions. (A USG-funded exit poll showed Nazarbayev getting 83% of the vote.) Prior to the election, he had made a commitment that once he was re-elected, he would begin discussion with the opposition and civil society organizations representing a broad spectrum of views on future political reforms. In mid-February, however, a

prominent opposition figure, Altynbek Sarsenbaiuly, was murdered. The killing, a rarity in Kazakhstani public life, severely shook up the political environment and has delayed discussion of political reforms.

18. (S) The investigation into the Sarsenbaiuly murder is ongoing, with assistance from the FBI. Ten suspects, including seven members an elite anti-terrorism unit, have been arrested in the case. Political observers and the general public are extremely skeptical of the official version of events, and there is rampant speculation (but no actual evidence) that a member of President Nazarbayev,s inner circle actually ordered the murder. Based on the FBI participation, we can say with confidence that there is overwhelming evidence of the guilt of those currently charged. We also have strong reason to believe that President Nazarbayev was not involved, and saw it as an attack against his authority and the stability he prizes so highly. Although FBI-administered polygraph examinations of the two main culprits suggest someone else may have instigated the murder, only a more forthcoming attitude by the main suspects would provide a basis to prove or disprove additional involvement.

19. (C) There has been some recent forward movement on democratization. The opposition &True Ak Zhol8 party was registered in March after months of legal battles. On March 24 Nazarbayev finally convened the long-awaited State Commission on Democratization, which is intended to bring together representatives from government, the opposition, and civil society to outline a plan of wide-ranging political reforms. Most opposition leaders refused to attend the first session on the grounds that the government had not shared any information about the purpose, structure, or procedures of the Commission. However, the government had met all three of the opposition's public demands for participation in the commission (Nazarbayev to serve as chair, release of imprisoned political leader Zhakiyanov, and registration of the True Ak Zhol party).

Macroeconomic Achievements

110. (SBU) Kazakhstan stands out among the post-Soviet Central Asian states in its record of macroeconomic reform since independence. The country has enjoyed near double-digit GDP growth over the last five years, while keeping inflation in

check. In 2000, Kazakhstan repaid its \$400 million in IMF loans ahead of schedule. Financial reform has created a banking system comparable to those in Central Europe, and Almaty now aspires to become a regional financial center. The GOK deserves much credit for its management of oil revenues, thus far avoiding the typical macroeconomic distortions of oil-rich countries by placing \$7 billion under offshore management. It has joined the Extractive Industries Transparency Initiative. Kazakhstan is in the end-stages of WTO accession, a goal it hopes to reach by 2007.

Energy: U.S. Investment

111. (SBU) The U.S. has a clear strategic interest in ensuring the development of Kazakhstan,s significant energy resources. Kazakhstan will likely become a top-ten world oil producer by 2015, and is poised to deliver important quantities of natural gas to European markets within the next decade. In order to ensure that Kazakhstan,s reserves contribute to international energy security, we promote a regional policy of multiple pipelines, in order to minimize the influence of geographical chokepoints or transportation monopolies. To this end, we are encouraging completion of the Kazakhstani-Azerbaijani negotiations to secure access for Kazakhstani oil to the Baku-Tblisi-Ceyhan (BTC) pipeline, and finalization of an agreement between the GOK, Russia, and

investors on the expansion of the privately owned CPC (Caspian Pipeline Consortium) pipeline which runs north through Russia. We are also exploring the feasibility of constructing an underwater Trans-Caspian gas pipeline, which would carry Central Asian gas to European markets via Azerbaijan.

¶12. (SBU) American companies are well represented in all of Kazakhstan's major energy projects. Chevron was an early post-independent entrant, and now holds 50% of Tengiz, Kazakhstan's largest current producer. Over the next decade, the majority of Kazakhstan's production will move offshore, beginning with the mammoth Kashagan field (where ExxonMobil and ConocoPhillips have shares), due to begin production in 2010. Most recently, the USG has been advocating on behalf of ConocoPhillips' bid to participate in development of Kazakhstan's offshore Caspian "N Block" in partnership with Kazakhstan's state-owned oil-and-gas company.

Economic Diversification

¶13. (S) Efforts to develop non-energy related industries are hampered by widespread corruption at all levels of society and government, and oligarchical concentration of ownership. This is especially true among the President's family, political allies and the economic elites who dominate his inner circle. The GOK has taken some steps to address the problem, but has not attacked it at the root, or created the sort of truly independent judiciary needed to combat economic crimes. Nevertheless, the solid macroeconomic policies of the past decade have created many of the prerequisites for a more diverse economy, such as moderate inflation rates, an excellent banking and banking regulatory system, investment-grade ratings of sovereign debt by all agencies, and the early pay-off of all IMF debt. The GOK is also taking the necessary steps to integrate itself into the regional and global economy, most notably application for WTO membership.

Religious Tolerance

¶14. (SBU) Kazakhstan leads the countries of the former Soviet Union in its encouragement of religious tolerance and its respect for the rights of religious minorities. The country is multiethnic, with a long tradition of tolerance and secularism. The generally amicable relationship among religions in society contributed to religious freedom. Since independence the number of mosques and churches has increased greatly. Religious leaders, including those of minority faiths, have praised consistently the role the Government of Kazakhstan has played in ensuring their right to peaceful practice of their religious beliefs. President Nazarbayev refers often to Kazakhstan's religious diversity and tradition of tolerance, taking great pride in his role in promoting interfaith harmony. Kazakhstan will continue Nazarbayev's "Peace and Harmony" initiative by hosting the second Congress of World Religions in Astana in September

2006 and inviting several previously unrepresented groups. The previous congress was held in September 2003.

Kazakhstan and the U.S.: The Long Term

15.(C) Looking outward, Kazakhstan adheres to what it terms a "multi-vector foreign policy" -- i.e. a careful balancing act between its powerful mega-neighbors, Russia and China, as well as the U.S. Nazarbayev actively seeks high-level U.S. visits such as that of the Vice President as a useful counterweight to pressures from Russia and China. Nazarbayev speaks often of increasing Kazakhstan's stature in the world community. In concrete terms, Kazakhstan is

bidding for the OSCE Chairmanship in 2009.

¶16. (C) Nazarbayev, who has not had a White House meeting since his December 2001 visit to Washington, will be eager to publicly highlight both Kazakhstan's strategic relationship with the U.S. and its leading role in Central Asia. He is grateful for the enhanced engagement with the U.S. since last fall, which has included four cabinet-level visits to Astana.

His desire to set a positive tone for his own fall 2006 meeting with President Bush gives us an opportunity to encourage steady and meaningful movement on the democratic reform agenda, complementing the strong engagement we have had across the rest of the relationship.

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